Chapter 9

What You Need to Know About Student Loans

Why should you find out about student loans? Unless you're one of the lucky few who manage to get full scholarships or you can afford to pay for your schooling out of your own pocket, you'll probably have to take out student loans. Before you borrow money for school expenses, you should learn a little bit about the student loan process. Here are some terms you need to know. Terms that are defined elsewhere are in ***bold italics***.

- **Borrower benefits** — Think of these in terms of a price break you get when you buy something and a rebate you get after you buy it. A ***lender*** can charge an ***origination fee***, while a ***guarantor*** can charge an ***insurance fee***. Not all lenders and guarantors charge the same fees, and some, like KHEAA, don't charge a fee at all. These fees are deducted before you see the money, so the lower the fees, the more money you get to pay for college.

  You can also get breaks when you start repaying your loan. Many lenders will charge you a lower ***interest*** rate if you meet certain criteria. See the information on the **Best in Class**, **Best in Care, Best in Law** and **BestStart** programs on the following pages for examples of how this works.

- **Guarantee fee** — This is the same as an ***insurance fee***.

- **Guarantor** — This is like an insurance company. The guarantor, such as KHEAA, has a contract with the ***lender*** to pay off a student loan under special circumstances.

- **Insurance fee** — It's just like car insurance, only it's not as expensive. The ***guarantor*** can charge you up to 1 percent of your loan as an insurance fee. KHEAA is a guarantor, and to help you with your educational costs, does not charge an insurance fee. There is legislation in Congress, if passed, would require guarantors to charge this fee.

- **Interest** — This is the money you pay the ***lender*** for letting you use its money to pay your school costs. It's just like the interest you pay on your car loan, only it's generally lower.

- **Lender** — The lender is whoever loans you the money. It can be a bank, a nonprofit state corporation, a credit union or some other financial institution.

- **Origination fee** — This helps cover the costs the ***lender*** has to pay for doing business with you. Lenders can charge up to a 3 percent ***origination fee***. KHEAA does not charge an origination fee.

- **Principal** — This is the actual amount you borrow *before* the ***origination fee*** and ***insurance fee*** are deducted. The interest you are charged will be based on the principal.

The Student Loan People℠

The answer to all your student loan needs, whether you're a current student or a graduate wishing to consolidate your student loans.

BESTSTART

BestStart Stafford Loan

- **0% origination fee**
- **0% guarantee fee**
- **3.5% credit** to the original loan principal after the first 30 consecutive on-time payments
- **0.25% interest rate reduction** for automatic payments

PLUS Loan:

- **0% guarantee fee**
- **1% credit** to the principal 90 days after full disbursement
- **1% interest rate reduction after first** 30 consecutive on-time payments
- **0.25% interest rate reduction** for automatic payments

If you go into teaching, nursing or law, you may be able to take advantage of the programs on page 73.

BEST IN **CLASS**

Teachers, librarians and counselors who work full-time in a certified Kentucky public or private nonprofit preschool, elementary or secondary school receive:

- **Interest forgiveness** for each year of service in Kentucky
- Up to **20% loan principal forgiveness** for each year of service for:
  - **Minority teachers**
  - **Math teachers**
  - **Science teachers**
  - **English as a second language teachers**
  - **Special education teachers**
  - **Foreign language teachers**

BEST IN **CARE**

Licensed RNs, LPNs and LVNs working full-time in Kentucky receive:

- **Interest forgiveness** for each year of service in Kentucky
- Up to **20% loan principal forgiveness** for each year of service for licensed RNs, LPNs and LVNs working in Kentucky in one of the following critical areas: hospital care, public health, long-term care facilities — college nursing, college nursing instructors and public health care**.**

Kentucky UNBRIDLED SPIRIT™

BEST IN **LAW**

Kentucky attorneys working as public defenders, assistant commonwealth's attorneys, assistant county attorneys, legal services attorneys, Circuit Court law clerks or Kentucky Supreme Court and Court of Appeals law clerks receive:

- **Interest forgiveness** for each year of service in Kentucky
- Up to **20% loan principal forgiveness** for each year of service in Kentucky (not to exceed $10,000 per year)

To get the lowest-cost student loans and best repayment benefits, select The Student Loan People **Lender Code 826688** on your Master Promissory Note (MPN).

LEAN ON US, FROM CLASS TO CAREER.

KHEAA Kentucky Higher Education Assistance Authority

The Student Loan People℠ Kentucky Higher Education Student Loan Corporation

Kentucky's trusted source for grants, scholarships and loans.

Student Loan Tips

Despite what you might think, you'll probably have to borrow some money in order to complete your education. However, you should research all other means of financial aid before taking out a student loan. Don't forget that a student loan has to be repaid, whether you finish your education or like the school or program you've started. You're taking on a commitment that will help improve your future but that also requires you to be responsible. By making your payments on time, you're establishing yourself as a good credit risk. This will help you later in life when you need to borrow money for another purpose, whether it's buying a car, furniture or a home. Here are some tips that will help you to borrow wisely.

Tip 1: Contact the school you plan to attend

Find out what other financial aid you qualify for before applying for a student loan. Grants, scholarships and work-study usually don't have to be repaid.

Ask the financial aid officer how much the total cost of attending school, including the estimated living expenses, is going to be.

Know what the school's refund policy is. Ask the financial aid officer or check the student handbook or class schedule.

Tip 2: Check out the job you're interested in

Find out the job opportunities in that field to make sure you'll be able to earn enough to pay back what you borrow as well as meet any other expenses you will encounter when you're in the working world. Defaulting on a student loan isn't an option, even if you can't find a job in the field you've trained for or if you don't make as much money as you thought you would. Research before committing yourself to a job where you won't earn enough money.

Check with the school about entrance counseling. The school you'll be attending is required to provide this before you receive your first Federal Stafford Loan.

Tip 3: Find out about student loans before borrowing

Borrow only what you need. Remember, you have to repay your loan. The chart on the next page shows the approximate monthly payment required on a Federal Stafford Loan depending on the interest rate.

For new borrowers who have no outstanding loans, the interest rate can't be more then 8.25 percent. Note that the chart shows the approximate monthly payment required on *each* Federal Stafford Loan. For example, if you have two $5,000 loans at 5 percent each from a different lender, your monthly payment would be $106 ($53 to each lender). For a quick estimate of how much you will pay based on how much you have borrowed, the

Federal Stafford Loan Repayment			
Amount Borrowed	Estimated Monthly Payment		
	4%	4.5%	5%
$ 5,000	$ 51	$ 52	$ 53
$10,000	$101	$104	$106
$15,000	$152	$155	$159
$20,000	$202	$207	$212
$25,000	$253	$259	$265
$30,000	$304	$311	$318
$35,000	$354	$363	$371
$40,000	$405	$415	$424

interest rate, and the repayment period, use the Loan Repayment Calculator found under the *Quick Links* feature at www.kheaa.com.

Consider getting all of your loans through one lender so you don't have to make payments to two or more lenders at the same time. This will simplify the process. The federal government requires the Master Promissory Note (MPN) for all Stafford Loans. For more information, visit www.kheaa.com/mpn_home.html.

Use student loans only for educational purposes. Giving false information, forging information or using loans for any purpose other than legitimate school expenses is a crime. KHEAA will prosecute people who do that.

Generally, you have up to 10 years to repay your student loans. The minimum monthly payment is $50. Your repayment duration and amount will be based on your loan balance. An extended repayment plan may be available if you owe more than $30,000 in student loans. Under the extended repayment plan, you can take up to 25 years to pay, depending on how much you owe.

Tip 4: What happens after the first year?

Most financial aid programs have renewal requirements and some limitations such as:

- Advancing to the next grade level.
- Requiring students to reapply each year.
- Limiting the total number of years aid can be received.

BEFORE YOU TRANSFER TO ANOTHER SCHOOL, BE SURE TO CHECK ON THE STATUS OF YOUR FINANCIAL AID.

Tip 5: Now the fun part — repayment!

When you start making payments, think about paying a little extra—a few more dollars paid each month reduces the overall amount of interest you will pay over the life of the loan. If you pay an extra $10 each month, $120 a year, the extra money is applied to the principal, which lowers the total interest you end up paying.

If you have any trouble making your payments, contact your lender immediately. You may be able to postpone or reduce your payments temporarily. Before you enter repayment, you will go through exit counseling.

If you end up with more than one student loan, contact your lender or KHEAA about consolidating your student loans. For more information about Federal Consolidation Loans, contact:

KHEAA,
P.O. Box 798
Frankfort, KY 40602-0798
800.928.8926
www.kheaa.com/fed_cons.html,
or
The Student Loan People
P.O. Box 24328
Louisville, KY 40224-0328
888.678.4625
www.studentloanpeople.com.

Repaying Your Student Loan

Managing Your Student Loan

Your student loan gives you a chance to get a college education you might not be able to afford without it. However, a student loan brings responsibilities while you're in school as well as after you're out of school.

Many borrowers think they don't have to worry about their student loans until they graduate or leave school. If you transfer schools, drop credits or extend your studies, you are responsible for keeping your loan in good standing and reporting changes to your lender.

You should immediately notify your lender and current school in writing if you:

- Change your address or telephone number. (Don't assume that filing an address change with the post office is enough.)
- Change your name.
- Transfer to a new school.
- Drop below half-time enrollment, withdraw or graduate.
- Change your anticipated graduation date.

You should:

✔ Contact your lender *in writing* when you change your name, address, enrollment status or school.

✔ Always keep copies of all correspondence relating to your loans for future reference.

✔ Avoid unexpected early repayment by informing your lender if you transfer schools, even if you don't take out another loan, or change the date you expect to complete your studies.

Take advantage of opportunities that may be available to you through:

- Repayment options.
- Deferment.
- Forbearance.
- Consolidation.

If you have questions or need help, call one of KHEAA's borrower advocates at 800.928.5327; write KHEAA, P.O. Box 798, Frankfort, KY 40602-0798; fax 502.696.7305; or e-mail Default_Aversion@kheaa.com.

Things to Know About Repayment

Unless otherwise advised by the school, lenders use the anticipated graduation date listed on your most recent loan application to place your loan into repayment. Schools periodically report student enrollment; however, it is your responsibility to notify your lender of any enrollment change. Don't wait for your lender to contact you. If you graduate, leave school or drop below half-time enrollment, call your lender to arrange a repayment schedule.

Remember:

- A loan must be repaid. Signing the promissory note is a legal promise to repay the loan, even if you're dissatisfied with your school, don't graduate or don't find a job.
- A grace period is the time between when you leave school or drop below half-time status and the time you have to begin repaying your loan. It's usually six months.
- It's up to you to know when repayment begins. Your lender will provide a repayment schedule that lists repayment terms and conditions. Please notify your lender of any change to your address. Your loan can default without your knowledge if your lender can't contact you. The consequences of defaulting are very serious, so keep in contact with your lender.

You have four repayment options. Under the first three you generally have up to 10 years to repay your loan.

Standard Repayment is the traditional option. You pay a set amount each month over the maximum repayment period. The monthly payments may change each year to reflect a change in the interest rate. The minimum payment is usually $50.

Graduated Repayment lets your monthly payments change (usually increase) over the repayment period.

Income-sensitive Repayment is available if you provide the lender with information on your expected total gross monthly income. Unless you consolidate your loans with your spouse, this doesn't include your spouse's income. You must provide documentation each year so the lender can adjust your payment amounts.

Extended Repayment is available if you owe more than $30,000 in student loans and don't owe anything on loans taken out before October 7, 1998. Under this plan, you can take up to 25 years to pay, depending on how much you owe

Deferment

A deferment is a period of time when you don't have to make payments. On subsidized loans, interest that accrues during deferment is paid on your behalf by the federal government; on unsubsidized loans, you must pay the interest during these periods. If you show that you're eligible for a deferment and provide the required documentation, your lender must give you the deferment.

It's your responsibility to request a deferment and to provide the lender with documents that support your eligibility. If you haven't yet defaulted, you must be granted a deferment if you qualify. Eligibility varies by deferment type. Not all types apply to all borrowers.

The most common deferments and circumstances under which you can apply are:

- **In-school or Student Deferment** for periods of full-time and half-time study at an eligible school.
- **Summer Bridge Deferment Extension** when you attended school in the spring and plan to reenroll in the fall.
- **Unemployment Deferment** when you are really trying to find a full-time job but can't. (Full-time employment is defined as at least 30 hours of work each week that's expected to last at least three months.)
- **Graduate Fellowship Deferment** for periods of study under an eligible graduate fellowship program.
- **Rehabilitation Training Program Deferment** while you participate in a qualified rehabilitation training program.
- **Temporary Total Disability Deferment** when you are temporarily totally disabled or unable to find or continue employment because you're caring for a dependent or spouse who's temporarily totally disabled.
- **Military Deferment** while you're on active duty in the U.S. Army, Navy, Air Force, Marine Corps or Coast Guard.
- **Economic Hardship Deferment** when you earn less than minimum wage or exceed a federally defined debt-to-income ratio.
- **Parental Leave Deferment** when you are pregnant or caring for a newborn or newly adopted child.
- **Working Mother Deferment** for mothers of preschool-age children entering or reentering the work force.

The chart on page 78 shows specific eligibility criteria and more deferment types.

Deferment Eligibility Chart

Form	Deferment Type	Time Limit	Stafford and SLS Loans			PLUS Loans				Consolidation Loans	
			Pre 7/1/87 Borrower	New[1] Borrower 7/1/87 to 6/30/93	New[2] Borrower 7/1/93	Loans Before 8/15/83	Pre 7/1/87 Borrower	New[1] Borrower 7/1/87 to 6/30/93	New[2] Borrower 7/1/93	Borrower Consolidates Before 7/1/93[7]	New[2] Borrower 7/1/93
SCH	In-School: Full Time	None	•	•	•	•	•	•	•	•	•
	In-School: Half Time	None		•	•			•	•	•	•
EDU	Graduate Fellowship	None	•	•	•	•	•	•	•	•	•
	Rehabilitation Training	None	•	•	•	•	•	•	•	•	•
	Teacher Shortage	3 Years		•							
	Internship/ Residency Training	2 years	•	•		•					
TDIS	Temporary Total Disability[3]	3 Years	•	•		•	•	•		•	
PUB	Armed Forces or Public Health Services[4]	3 Years	•	•		•					
	National Oceanic and Atmospheric Administration Corps[4]	3 Years		•							
	Peace Corps, ACTION Program and Tax-Exempt Organization Volunteer	3 Years	•	•		•					
UNEM	Unemployment	2 years	•	•		•	•	•		•	
	Unemployment	3 Years			•				•		•
PLWM	Parental Leave[5]	6 Months	•	•							
	Mother Entering/Reentering Work Force	1 Year		•							
HRD	Economic Hardship	3 Years			•				•		•
PLUS[6]	In-School: Full Time	None				•	•	•			
	In-School: Half Time	None				•	•	•			
	Rehabilitation Training	None				•	•	•			

1 "New Borrower" 7/1/87 to 6/30/93: A borrower whose first FFELP loan was made on or after July 1, 1987, and before July 1, 1993, or who had an outstanding balance on a loan obtained on or after July 1, 1987, and before July 1, 1993, when he or she obtained a loan on or after July 1, 1993, or who had no outstanding balance on a Federal Consolidation loan made before July 1, 1993, that repaid a loan first disbursed before July 1, 1987.

2 "New Borrower" 7/1/93: A borrower whose outstanding FFELP loans were all made on or after July 1, 1993, and when his or her first FFELP loan was made on or after July 1, 1993, had no outstanding FFELP loans that were made before July 1, 1993.

3 A deferment may be granted during periods when the borrower is temporarily totally disabled or during which the borrower is unable to secure employment because the borrower is caring for a dependent (including the borrower's spouse) who is temporarily totally disabled.

4 Borrowers are eligible for a combined maximum of 3 years of deferment for service in NOAA, PHS, and Armed Forces.

5 A parental leave deferment may be granted to a borrower in periods of no more than 6 months each time the borrower qualifies.

6 Deferment for parent borrower during which the dependent student for whom the parent obtained a PLUS loan meets the deferment eligibility requirements.

7 A borrower who received a Federal Consolidation loan that repaid a loan made before July 1, 1987, for a period of enrollment beginning before July 1, 1987, is eligible for in-school deferment only if the borrower attends school full time.

Forbearance

If you're unable to make scheduled payments, lenders may let you temporarily stop making payments. This is called a forbearance. During a forbearance, interest continues to accrue while you delay or reduce payments. You can request a forbearance to allow for:

- A short period of time during which you make no payments.
- An extension of time for making payments.
- A period during which you make smaller payments than were originally scheduled.

You should explain your circumstances to the lender or servicer, who will determine whether to grant a forbearance. Forbearances are granted at the discretion of the lender.

Loan Consolidation

Paying back your student loans can sometimes be overwhelming, especially if you have loans from more than one lender or have more than one type of loan. If you do, that means having to keep track of making several payments each month.

If you qualify for a Federal Consolidation Loan, you can combine your student loans into one loan with one lender. That means you only have to make one payment each month. The payment may be less than half of what you would have to pay if you don't combine your loans. You'll probably take longer to pay back your loans, which means you'll pay more interest.

Interest rates are based on a weighted average of the interest rates on the loans you're consolidating. The maximum interest rate is 8.25 percent, and the rate is fixed for the life of your loan.

You can choose from three payment plans: level, graduated and income-sensitive.

- Under the level plan, you make the same payment each month.

- With the graduated plan, the first two years you pay only the interest on the loan. After that, you pay more each month to pay off the loan.

- Under the income-sensitive plan, payments are based on how much you make. The payment must at least cover the interest that accumulates each month.

How long you have to repay your loan depends on how much you owe.

Amount Consolidated	Maximum Repayment Term
Up to $7,499	10 years
$7,500–9,999	12 years
$10,000–19,999	15 years
$20,000–39,999	20 years
$40,000–59,999	25 years
$60,000 or more	30 years

You can get an idea of how much your monthly payments will be by using the chart below. Find the length of time you will be repaying your loan, based on the list above showing how much you owe. Multiply the dollar amount below by every $1,000 you owe. The chart is based on an 8 percent interest rate.

10 years $12.13
12 years $10.82
15 years ....$ 9.56
20 years ....$ 8.36
25 years ....$ 7.72
30 years ....$ 7.34

If you owe $15,000 in student loans, you have 15 years to repay your loan. Based on the chart above, your payment would be 15 x $9.56, or $143.40 a month. It may be a little less or a little more, since there's some rounding involved.

Here is more information you need to know about consolidating your student loans.

What loans can I consolidate?

Just about any federal student loan, including Stafford Loans, Perkins Loans and PLUS Loans. You can also consolidate Federal Insured Student Loans (FISL), Health Education Assistance Loans (HEAL), Health Professions Student Loans (HPSL), Loans for Disadvantaged Students (LDS) and Federal Nursing Student Loans.

If you have a Perkins Loan, you need to take a close look at whether you want to give up the low fixed-interest rate or forgiveness programs that may be associated with your Perkins Loan. You may wish to talk to your school about the advantages and disadvantages of consolidating these loans.

If you have a HEAL Loan, the interest rate on that part of your Consolidation Loan may be more than 8.25 percent.

Can I consolidate with my spouse?

Yes. If you do, you and your spouse will make only one payment each month. However, if you and your spouse consolidate all your loans, you both are responsible for repaying the Consolidation Loan. That's true even if you separate or get a divorce. Another thing to consider is that you both must meet deferment or discharge conditions to qualify.

What if I'm behind on my payments?

You still may be able to consolidate your student loans if you're behind on your payments. But you must already have made arrangements to repay the loan or you have to repay your loans under an income-sensitive repayment plan. You should contact the holder of your loan immediately.

You may even be able to consolidate your loans if you're already in default. You should contact your loan holder to find out how.

The best time to consolidate your loan is six to eight weeks before your grace period expires. The grace period is the six months between the time you finish school and the time you have to start repaying your student loans.

What about deferments and forbearances?

It depends. If you consolidate by yourself, you can get a deferment if you meet the conditions. If you consolidate with your spouse, though, you both have to qualify for a deferment in order not to make payments. If you both don't qualify, one of you will still have to make the payments on the Consolidation Loan.

You can also get a forbearance if you meet the conditions. You'll have to check with your lender to see if you qualify.

Applications

You can apply for a Consolidation Loan through The Student Loan People at www.studentloanpeople.com or KHEAA at www.kheaa.com. You should only apply with one lender at a time. If you only have loans from one lender, you have to apply for a Consolidation Loan from that lender unless it doesn't offer an income-sensitive payment plan. If you have student loans from more than one lender, you can choose the lender you want.

Don’t Damage Your Future

Although most student loan borrowers repay their loans on schedule, others can’t because of high debt, emergencies and other circumstances. Defaulting on student loan repayment can have serious consequences, such as:

- You will be denied additional student loans, grants and other aid.
- All national credit bureaus will be notified of the default, severely damaging your credit rating.
- Some of your wages may be taken directly from your employer to pay your defaulted loan.
- Your federal and state income tax refunds or other monies owed to you may be taken to pay your defaulted loan.
- Collection charges of 25 percent may be added to your loan debt.
- You may be sued.

Avoid the consequences of a defaulted loan by taking advantage of the opportunities available to you. Be sure to contact your lender whenever you have a problem or question.

KHEAA is committed to helping students avoid defaulting on their student loans. If you’re unable to resolve a delinquency problem and would like to speak with one of KHEAA’s borrower advocates, call 800.928.5327.

Don’t let time run out on repaying your student loan!